BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of the Missouri Gas Energy tariffs designed to expand the availability of transportation service.	)	CASE NO. GT-95-32
In re Missouri Gas Energy tariffs designed to recover transition costs.	)	CASE NO. GR-95-33

APPEARANCES:

Gary W. Duffy, Attorney at Law, Brydon, Swearengen & England, P. C., P. O. Box 456, Jefferson City, Missouri 65102, for Missouri Gas Energy.

Paul W. Phillips, Deputy Assistant Counsel, 1000 Independence Avenue S.W., Washington, D.C. 20585, and **Pat Currier**, Attorney at Law, P. O. Box 10202, Kansas City, Missouri 64141, for United States Department of Energy, Federal Executive Agencies.

Stuart W. Conrad, Attorney at Law, Finnegan, Conrad & Peterson, 1209 Penntower, 3100 Broadway, Kansas City, Missouri 64111, for Midwest Gas Users' Association.

Richard W. Stavely, Attorney at Law, 257 North Broadway, Wichita, Kansas 67202, and **Philip Prewitt**, Attorney at Law, P. O. Box 1438, Jefferson City, Missouri 65102, for Mountain Iron & Supply Company.

Susan B. Cunningham, Attorney at Law, 1201 Walnut, Kansas City, Missouri 64106-2124, for Kansas City Power & Light Company.

Lewis R. Mills, Jr., Deputy Public Counsel, P. O. Box 7800, Jefferson City, Missouri 65102, for the Office of the Public Counsel and the Public.

Penny G. Baker, Deputy General Counsel, and **John M. Himmelberg, Jr.**, Assistant General Counsel, P. O. Box 360, Jefferson City, Missouri 65102, for the Staff of the Missouri Public Service Commission.

Hearing Examiner: **Anne Wickliffe Freeman**

REPORT AND ORDER

Procedural History

Missouri Gas Energy (MGE) submitted two sets of proposed tariff sheets on July 7, 1994. The first, assigned File No. 9500014, was designed to expand the availability of transportation service on MGE's system by adding a new rate schedule entitled "Large General Transportation Service" (LGTS). Mountain Iron & Supply Company filed a motion to suspend these tariffs on August 3, 1994; the Staff of the Commission recommended suspension also. The second set of proposed tariffs, assigned File No. 9500015, was designed to recover costs characterized as transition costs which had been direct billed to MGE by its supplier as a result of Federal Energy Regulatory Commission Order 636. Staff recommended suspension of File No. 9500015.

On August 5, 1994, the Commission issued its order suspending both proposed tariffs until December 6, 1994. The order assigned docket numbers GT-95-32 (File No. 9500014) and GR-95-33 (File No. 9500015), established an intervention date of September 6, 1994, and set a prehearing conference for September 14, 1994.

The Commission issued an order on September 13, 1994, granting intervention in GT-95-32 to Kansas City Power & Light Company (KCPL), Mountain Iron & Supply Company, Midwest Gas Users' Association (MGUA), and the City of Kansas City, Missouri. The City of St. Joseph, Missouri was granted participation without intervention.

The Commission issued an order on September 13, 1994, granting intervention in Case No. GR-95-33 to Kansas City Power & Light Company, Mountain Iron & Supply Company, Midwest Gas Users' Association, the United States Department of Energy (DOE), and the City of Kansas City, Missouri.

The City of St. Joseph, Missouri was granted participation without intervention.

MGUA and DOE filed a joint motion on September 2, 1994, asking the Commission to consolidate Case Nos. GT-95-32, GR-95-33, and GO-94-318. Case No. GO-94-318 is an investigative docket opened to deal with several MGE issues, including the effectiveness of the company's PGA clause. The Commission ruled on the consolidation motion at the prehearing conference on September 14, 1994. The Commission denied consolidation of the three cases but ordered Case Nos. GT-95-32 and GR-95-33 consolidated for hearing purposes only. The Commission established a procedural schedule on October 4, 1994, and specified the issues to be considered. On October 12, 1994, the Commission issued an order further suspending the proposed tariffs' effective dates to June 6, 1995. The parties filed a Hearing Memorandum on February 9, 1995, setting out the contested issues. The parties filed testimony and the cases were heard jointly on February 14 - 16, 1995. The parties filed Initial and Reply briefs following the hearing. The City of Kansas City and the City of St. Joseph did not appear for the prehearing conference or for the hearing.

At the hearing exhibit numbers 20, 26, 27, and 28 were reserved for late-filed exhibits. Exhibit No. 20 was not submitted. Exhibit No. 26, consisting of the response by Staff to a Data Request from MGUA, was proffered by Staff and filed on February 22, 1995; no objections were filed. Because portions of Exhibit No. 26 are already a part of the record as Exhibit No. 25, and no objections were filed, Exhibit No. 26 will be received into the record. At the hearing the examiner agreed to take official notice of two documents to be submitted after the conclusion of the hearing. Exhibit No. 27, consisting of a section of the Code of Federal Regulations, 18 CFR 191-204 was proffered by Staff and filed on

February 22, 1995. Exhibit No. 28, consisting of a copy of the Unanimous Stipulation and Agreement filed in Case No. GR-93-240, was proffered by Mountain Iron and filed on February 20, 1995. The Commission takes official notice of Exhibit No. 27 and Exhibit No. 28.

This Report and Order will address each of the issues proposed for resolution in the parties' Hearing Memorandum.

Findings of Fact

The Missouri Public Service Commission, having considered all of the competent and substantial evidence upon the whole record, makes the following findings of fact:

I. CASE NO. GT-95-32

The parties participating in, and taking positions on the issues in, Case No. GT-95-32 were MGE, Staff, and Mountain Iron. MGE submitted a proposed tariff on July 7, 1994, which was given the file no. 9500014, suspended, and assigned to Case No. GT-95-32 for consideration. The proposed tariff is designed to expand the availability of transportation service by creating a new class of MGE customers called the Large General Transportation Service class (LGTS). Sales customers who use at least 12000 Mcf of gas annually, but do not exceed 3000 Mcf in any one month, would be eligible to receive transportation service in the LGTS class. The class would permit some smaller commercial and industrial end users the benefits of transportation service. Six of MGE's current sales customers would qualify for inclusion in the new class. An issue by issue discussion follows.

A. Is the expansion of the Large General Transportation Class as described in File No. 9500014 appropriate and are the proposed terms and conditions of that expansion reasonable and not discriminatory?

Four issues were raised regarding the reasonableness of the LGTS class tariff: 1) prematurity of the submission; 2) the small size of the class created: 3) the potentially discriminatory effect of the cap waiver provision; and 4) the potentially discriminatory effect of the exit fee provision.

1) <u>Prematurity of the submission:</u>

Staff's position is that, because some of the issues involved in consideration of tariff File No. 9500014 will be considered in pending Case No. GO-94-318, MGE's tariff filing is premature and therefore unreasonable. The Commission decided that question when it determined that the tariff would be considered separately from Case No. GO-94-318 and the question will not be addressed again here.

2) <u>Small size of the class created:</u>

Mountain Iron objects to the creation of this new class on the ground that only six MGE customers presently qualify for this class. The Commission is of the opinion that creation of the LGTS class offers a benefit to those customers who qualify and that the benefit can be offered without causing detriment to MGE's other customers. The testimony showed that current sales customers who become LGTS customers would save money, even after making the payments required for installing and maintaining EGM equipment. The evidence also indicated that the new class would not create excessive administrative costs or create costs that would be passed on to sales customers. Therefore, the Commission finds that the small number of customers eligible for the new class does not render the proposed tariff unreasonable.

3) Potentially discriminatory effect of the cap waiver:

Staff and Mountain Iron take the position that this tariff filing presents a potential for discrimination because of the tariff language that permits MGE to waive the 3000 Mcf per month cap at its own discretion. The tariff limits entry into the LGTS class to customers using at least 12000 Mcf per year, but not exceeding 3000 Mcf in any one month. The following language from P.S.C. Mo. No. 1, Original Sheet No. 37.1, permits exceptions to the 3000 Mcf per month cap: "upon application and approval by the Company [MGE], this rate is also applicable to commercial and industrial customers whose natural gas requirements at a single address or location exceeds 3,000 MCF in any one month of a twelve-month billing period". This language allows MGE to make exceptions to the cap but does not delineate the criteria MGE would use to determine whether a commercial or industrial customer that has exceeded the cap should be allowed to elect, or remain, in the LGTS class. MGE argues that, because the language complained of has been approved by the Commission as part of its Large General Service class tariff, it would be inappropriate to disallow it here.

Missouri law prohibits regulated gas utilities from discriminatory pricing and from the giving of preferences. § 393.130.2 - .3 RSMo 1994[1]. Where the criteria for granting a waiver from the 3000 Mcf per month cap are not specified, there is no way for a customer who has applied for the cap exception to anticipate the outcome or to determine whether it

[1]All statutory references are to Revised Statutes of Missouri 1994.

has been treated fairly. The Commission is of the opinion that, if the tariff were approved as written, there would be no way for anyone other than MGE to determine the fairness of the exceptions it chooses to make or deny. The Commission considers the appropriateness of tariffs based on the surrounding facts and circumstances and language that is appropriate in one tariff, or applicable to one class, is not necessarily appropriate in another. Furthermore, MGE's existing approved tariff sheets were filed as a result of the agreements in Case No. GR-93-240 and Case No. GM-94-40. The tariff language was not litigated and the parties reserved their rights to contest any ratemaking principles or cost allocations which could be construed as underlying the agreement.

The Commission determines that the procedure described on Sheet 37.1 for waiving the 3000 Mcf per month cap could result in discriminatory pricing or preferences in violation of § 393.130. The Commission is of the opinion that the proposed tariff should be rejected and the tariff language reformed to state specifically what factors MGE will consider in determining whether to permit an otherwise nonqualifying customer to participate in the LGTS class.

<u>4)</u> <u>Potentially discriminatory effect of the "exit fee":</u>

Staff and Mountain Iron take the position that this tariff filing presents a potential for discrimination because of the tariff language describing an "exit fee", the specific elements of which are not set out. The proposed tariff requires customers switching from sales to the LGTS class, or vice versa, to give MGE 12 months written notice of the intention to switch. Customers may switch without the required notice on payment of certain charges which the parties have characterized as an exit fee. The exit fee provisions describe only certain items that the fee "may" include:

> Each customer meeting the eligibility requirements of this schedule shall give the Company 12 months written notice before they may switch from Large General Sales Service to Large General Transportation Service, unless the customer has paid the Company a charge designed to reimburse the Company for any costs which have been incurred to provide sales service to the customer and which cannot be avoided or recouped through other reasonably available means. ***Such costs may include interstate pipeline charges for storage and transportation and higher gas costs because of a decrease in purchase volumes.*** Customers must give the Company 12 months written notice to switch from Large General Transportation Service to Large General Sales Service, unless sales gas is otherwise available and the customer has paid the Company the incremental cost of providing such service in the period prior to when such notice would have otherwise become effective. ***Such costs may include incremental pipeline transportation and storage capacity and higher gas supply costs.*** *Emphasis added.*

Although the description of the components of the exit fee differ depending on whether the customer is switching from sales to transportation or from transportation to sales, Mountain Iron and Staff make the same objections to the exit fee calculation language. Mr. Hubbs testified for Staff that an exit fee provision should "specifically state all costs . . . and state how such costs will be calculated." Exhibit No. 15, p. 8. MGE argued that this language also has been approved by the Commission as part of its Large General Service class tariff.

The Commission makes the same findings as above regarding the previously approved exit fee language. The fact that MGE currently has tariff sheets with this language does not establish its appropriateness for the purposes of this case. While an exit fee may be appropriate at times, the Commission finds that the components of the exit fees are not adequately described by this tariff and the language leaves too much discretion to the company in determining the amount of a customer's exit fee. The Commission is of the opinion that a tariff should place a customer on notice as to the amount of all charges for which the customer may become liable. The customer should be able to determine from a reading of the tariff how MGE will go about calculating its exit fee. The Commission determines that the procedure described on Sheet 37.2 for establishing an exit fee could result in discriminatory pricing or preferences in violation of § 393.130. The Commission finds that this tariff should be rejected and the tariff language reformed to state specifically what elements will go into the calculation of the exit fee.

B. Is the tariff filing in compliance with the Stipulation and Agreements in Case Nos. GR-93-240 and GM-94-40?

The testimony and briefs in the case all deal with whether the proposed tariff complies with the agreement in Case No. GR-93-240. Relevant language from the Stipulation and Agreement in that case reads:

> C. Qualification for Transportation Service - The current 1500 Mcf minimum threshold for transportation eligibility shall be retained for at least one year in order to provide sufficient time to evaluate the impact of pipeline restructuring on the Company operations. During that period, the Company agrees to meet with Mountain Iron & Supply Company, the Staff, Public Counsel, Midwest Gas Users' Association and other interested parties to evaluate whether and to what extent the minimum threshold level should be reduced. The parties agree that reductions in the threshold may be appropriate if they can be made without imposing an unreasonable level of administrative costs on the Company and without having a detrimental impact on other customers.

That stipulation also provides that EGM installation be delayed for at least one year for customers with peak monthly usage of 1500 Mcf to 3000 Mcf. The agreement deferred "all other issues relative to the PGA" for later consideration and provided that, should the Commission not establish a docket to address those issues within six months after approval of the agreement (October 5, 1993), MGE would file a motion or tariff to initiate such a docket.

Mountain Iron's witness testified that MGE's tariff violates the one-year deadline for EGM established in the stipulation. However, that allegation was ruled on in the Order Denying Motion issued on November 22, 1994, where the Commission found that "the one-year moratorium on EGM installation for MGE's transportation customers requiring less than 3000 Mcf peak monthly usage ended on October 15, 1994".

Mountain Iron contends that the proposed tariff does not comply with the stipulation because the intent of that agreement was to reduce the threshold for the existing transportation service rather than to create a new class. Mr. Fernald testified on behalf of MGE that MGE met with interested parties and studied customer consumption and usage patterns, as required by Case No. GR-93-240, in order to arrive at the LGTS class proposal. MGE also initiated the docket in Case No. GO-94-318 to consider issues surrounding the company's PGA clause. Staff witness, Mr. Hubbs, agreed that the proposed tariff filing complies with the requirements of Case No. GR-93-240.

The Commission is of the opinion that the proposed tariff creating the LGTS class satisfies the requirements of the Stipulation and Agreement in Case No. GR-93-240. The evidence indicated that MGE met with the parties, evaluated the need for change in threshold amounts, opened the GO-94-318 docket, and proposed the LGTS class while keeping down administrative costs and detrimental effects on other customers. The stipulation states that "reductions in the threshold may be appropriate" but does not commit the company to undertaking a threshold reduction; only to evaluating whether a reduction would be appropriate. The courts apply the same principles in construing settlement agreements as in construing other contracts, with the goal of effectuating the intentions of the parties. ***Andes v. Albano***, 853 S.W.2d 936, 941 (Mo. banc 1993). When the language is unambiguous, there is no need to look beyond the settlement or contract language. ***Id.*** The Commission finds that there is nothing in the plain language of the Stipulation and Agreement that would prohibit MGE's tariff in this case.

C. At what level would a minimum threshold impose unreasonable administrative costs on MGE and have a detrimental effect on other customers?

The parties agreed in Case No. GR-93-240 that a reduction in the threshold for transportation service should be considered if such a reduction would not impose unreasonable administrative costs on the company or have a detrimental effect on other customers. All the parties agree that MGE's proposed tariff would not have a detrimental impact on other customers. However, Mountain Iron argues that establishing any usage threshold at all for transportation classes results in unnecessary administrative costs. It is Mountain Iron's position that transportation service should be available to all customers regardless of usage.

The evidence indicated that expanding the availability of transportation service as proposed would result in some increase in administrative costs, but not to such an extent that MGE's other customers would be adversely affected. The evidence also showed that reduction of the threshold beyond that proposed by MGE could result in administrative costs that would not be covered by present rates. Besides imposing an unreasonable burden on the company, those additional costs could ultimately become part of a general rate increase and be passed on to transportation and sales customers alike. The Commission finds that the tariff as proposed would not result in costs that would impose an unreasonable burden on the company or be detrimental to other customers.

D. What interpretation should be placed on the phrases "other customers" and "any twelve month period" in the proposed tariff and in the Stipulation and Agreement in Case No. GR-93-240?

1. What interpretation should be placed on the phrase "other customers" in the proposed tariff and in the Stipulation and Agreement in Case No. GR-93-240?

Mountain Iron disputes MGE's interpretation of the phrase "other customers" from the Stipulation and Agreement in GR-93-240. The text reads: "The parties agree that reductions in the threshold may be appropriate if they can be made without imposing an unreasonable level of administrative costs on the Company and without having a detrimental impact on other customers". Mountain Iron's witness testified that "other customers" should have the same meaning as "other interested parties". The testimony did not make it clear what effect the use of this interpretation would have on the reasonableness of the tariff or on the question of whether the tariff complied with the agreement. MGE and Staff take the position that "other customers" means customers who "do not currently have a transportation option and will not have a transportation option after the change" in transportation availability resulting from the tariff.

When construing undefined terms the courts give preference to the plain and ordinary meaning of the words used. ***Young Dental Mfg. Co. v. Engineered Products, Inc.***, 838 S.W.2d 154 (Mo.App. 1992). The fact that parties disagree over the meaning of a term does not necessarily make the term ambiguous. ***Id.***, at 156. The Commission believes its plain meaning should be given to the term "other customers" here. The Commission is of the opinion that MGE's interpretation is appropriate. If the parties intended to refer to other interested parties that term could have been used as it was elsewhere in the Stipulation and Agreement.

2. What interpretation should be placed on the phrase "any twelve month period" in the proposed tariff and in the Stipulation and Agreement in Case No. GR-93-240?

Mountain Iron also disputes MGE's interpretation of the phrase "any twelve month period" from the same Stipulation and Agreement and the tariff. The witness for Mountain Iron charged that the phrase is vague and renders the tariff in which it is used unreasonable and discriminatory. Witnesses for MGE and Staff testified that the phrase was intended to mean a consecutive twelve-month period. The Commission is of the opinion that, although the term "any twelve month period" is not so vague as to make the tariff unreasonable or discriminatory, adding the word "consecutive" to the phrase would avoid any possible misunderstanding. Therefore, the phrase should be modified to read "any consecutive twelve month period."

E. Is electronic gas metering appropriate, to the extent that the issue of electronic gas metering affects, or is affected by, the tariff filing?

MGE and Staff both take the position that the appropriateness of EGM should be decided in Case No. GO-94-318 and not here. Mountain Iron continues to oppose the tariff in this case based, at least in part, on its EGM requirement. Because the tariff filed in this docket is to be rejected by the Commission, the issue of the appropriateness of electronic gas metering will be decided in the context of Case No. GO-94-318 which is set for hearing beginning May 22, 1995. Therefore, there is no need for the Commission to reach a conclusion as to this issue here.

F. What is the appropriate role of burner-tip balancing, to the extent that it affects, or is affected by, the tariff filing?

In their initial briefs MGE and Mountain Iron take the position that burner-tip balancing is no longer at issue in Case No. GT-95-32. Staff's position is that the issue should be considered in the context of Case No. GO-94-318. The Commission therefore finds that the parties have abandoned the issue of burner-tip balancing and will make no ruling on that issue.

II. Case No. GR-95-33

The parties participating in and taking positions in Case No. GR-95-33 were MGE, Staff, the Office of the Public Counsel (OPC), U.S. Department of Energy (DOE), and Midwest Gas Users' Association (MGUA). MGE submitted a proposed tariff on July 7, 1994, which was given the file no. 9500015, suspended, and assigned to Case No. GR-95-33 for consideration. The proposed tariff is designed to recover transition costs direct billed to MGE by its pipelines. Transition costs are costs incurred by the pipelines which are associated with the unbundling of gas services under Order 636 issued by the Federal Energy Regulatory Commission (FERC). There are four elements of transition costs: Account 191, gas supply realignment (GSR) costs, stranded investment, and new investment costs. The pipelines must recover stranded investment and new investment through regular rate proceedings but are allowed to direct bill their customers for Account 191 and gas supply realignment costs. MGE's proposed tariff would pass these direct billed costs through to its own customers by means of its PGA clause, allocating Account 191 costs to sales customers and all other transition costs to both sales and transportation customers on a volumetric basis. MGE's PGA clause is designed to permit recovery of its costs to purchase gas outside of a general rate case. None of the parties challenged MGE's right to recover transition costs; the dispute centered around how the costs should be allocated among sales and transportation customers. An issue by issue discussion follows.

A. How should MGE recover pipeline transition costs from ratepayers?

Staff's position is that, because some of the issues involved in consideration of tariff File No. 9500015 will be considered in pending Case No. GO-94-318, MGE's tariff filing is premature and therefore unreasonable. The Commission decided that question when it determined that the tariff would be considered separately from Case No. GO-94-318 and the question will not be addressed again here.

1. Account 191 transition costs:

All the parties except Staff and OPC favor assigning Account 191 costs to sales customers only. Staff proposes that Account 191 transition costs be divided into TC Factor 1, consisting of "only those costs which relate solely to the most recent annual pipeline PGA periods" (Exhibit 21, page 4), and TC Factor 2, all other Account 191 transition costs. Staff agrees that TC Factor 1 costs, unrecovered gas costs from the pipeline's most recent PGA period, are directly attributable to sales customers and are most appropriately borne by sales customers. However, Staff argues that TC Factor 2 costs include costs which should be allocated to both sales and transportation customers.

TC Factor 2 costs include deferred gas storage costs and transfer and exchange imbalances. Staff's rationale is that some current transportation customers were sales customers at the time the TC Factor 2 costs were incurred and that TC 2 costs "cannot be specifically identified as relating either to sales or transportation customers" (Exhibit No. 21, p.6). During cross examination Staff attempted to demonstrate the specific periods during which these costs were incurred and the number of transportation customers on MGE's (then Western Resources, Inc.'s) system during those periods. MGE's witness, Mr. Fernald, admitted that some of MGE's current transportation customers were sales customers before unbundling.

The Commission agrees with the principle that costs incurred for a particular customer should be borne by that customer. In an ideal world every cent of every category of costs would be properly attributed to the cost causer. In reality, the administrative costs of attaining that kind of equity would impose an unreasonable burden on all customers. The attempt to clarify these matters at the hearing demonstrated to the Commission the difficulty of determining which transportation customers are former sales customers, during what period of time these transporters took sales service, and what amount of TC 2 costs should be assigned to them. The Commission finds that determining which customers contributed, and how much specific customers contributed, to incurring the costs characterized as Factor 2 transition costs is not practicable. The Commission finds that at least some of the Account 191 Factor 2 costs are attributable to current transportation customers who are former sales customers. Accordingly, the Commission finds that Account 191 Factor 1 transition costs should be allocated to sales customers only, and Account 191 Factor 2 transition costs should be allocated to both sales and transportation customers on a volumetric basis.

2. Gas Supply Realignment costs:

Gas Supply Realignment costs (GSR costs) are costs incurred by the pipeline in reforming and cancelling contracts in order to relinquish its merchant functions. MGE has not yet been direct billed for any GSR costs but, because they are transition costs and could be direct billed in the future, they should be addressed here. MGE and MGUA take the position that these costs should be allocated to sales customers only; Staff's position is that GSR costs should be recovered from sales and transportation customers on a volumetric basis; OPC argues that sales customers should have no responsibility for anything other than Account 191 costs and these costs should be recovered from transportation customers only.

The Commission believes that the unbundling of gas services resulting from FERC Order 636 was designed to result in a more competitive market and GSR costs were incurred in complying with that order. Although the supply contracts affected by Order 636 were contracts for the sale of gas, the realignment costs were incurred in the pipeline's changeover from a merchant to a transporter. Since both sales and transportation customers benefit from the lower gas prices available in a more competitive market, both classes should pay for that benefit.

The Commission finds that both sales and transportation customers have benefitted from the unbundling ordered by FERC. The Commission determines that both classes of customers should share in the pass through of GSR costs on a volumetric basis.

3. Stranded investment and new investment:

Although stranded investment and new investment are costs associated with the transition brought about by restructuring, they are not gas costs. The evidence indicated that these two costs would eventually be recovered in pipeline rates, rather than through a transition cost assessment. MGE is not attempting to recoup these costs in this filing. The Commission finds that stranded and new investment may not be passed through by means of MGE's PGA clause.

4. Quarterly v. annual adjustments and carrying charges:

MGE requested authorization to adjust its PGA for transition costs on a quarterly basis in order to reduce its liability for carrying charges. Staff and OPC take the position that adjustments should only be made annually so that the threat of carrying charges can be used to encourage MGE to take part in challenges to transition costs in FERC proceedings. Mr. Fernald testified on MGE's behalf that the company is a participant in its pipelines' FERC cases and that regulatory lag alone provides an incentive for participation. He also testified that MGE has already incurred carrying charges on transition costs of more than two million dollars.

The Commission is of the opinion that quarterly adjustments are appropriate. Allowing the accumulation of carrying charges could harm ratepayers who may ultimately be responsible for interest expense. The Commission determines that, since MGE is to be permitted to recover its direct billed transition costs, the company should also be allowed reimbursement for the funds needed to pay those costs before ratepayer money is available to do so.

The Commission would remind MGE that granting permission to pass through transition costs via its PGA clause does not relieve the company of its responsibility to seek to reduce or eliminate future transition costs in FERC proceedings.

5. Summary:

The Commission finds that MGE has been direct billed by its pipeline(s) for certain FERC-approved transition costs which it is under an obligation to pay and the amount of which cannot be reduced by any efficiencies of operation. The Commission determines that MGE is entitled to pass through those transition costs described below to its customers, and that it is appropriate to pass them through by means of its PGA clause, in a similar manner to its recovery of other federally mandated charges such as Take or Pay costs. The Commission finds that the portion of Account 191 costs which consist of unrecovered gas costs should be allocated to MGE's sales customers. The Commission finds that the portion of Account 191 costs which consist of unamortized deferred gas storage costs or transportation and exchange imbalance costs should be allocated to MGE's sales and transportation customers on a volumetric basis. The Commission finds that all other transition costs should be allocated to MGE's sales and transportation customers on a volumetric basis. The Commission further finds that MGE may not recover stranded investment and new investment costs by means of its PGA clause, even though they may be characterized as transition costs.

B. Would approval of the underlying tariff filings constitute single-issue ratemaking?

The Commission has historically found that the pass-through of government-mandated charges, such as Take or Pay charges, does not constitute single issue ratemaking. The Commission finds the same reasoning to be applicable to transition cost pass-throughs.

Conclusions of Law

The Missouri Public Service Commission has arrived at the following conclusions of law:

The Commission has jurisdiction over the operations and rates charged by MGE pursuant to Chapters 386 and 393 of the Revised Statues of Missouri. The Commission, pursuant to § 393.150, suspended the proposed tariffs designed to expand transportation service and to pass through transition costs and set the matter for an evidentiary hearing. The Commission conducted a hearing and received evidence and has made the above findings of fact based on a review of all the competent and substantial evidence on the record, the exhibits filed after hearing, and the briefs of the parties. The burden of proof to show that a proposed rate is just and reasonable is upon the gas corporation. § 393.150.2. The Commission concludes that MGE has failed to meet its burden of proof to show that the rates proposed in File No. 9500014, Case No. GT-95-32, are reasonable and that tariff should be rejected in accordance with the Commission's findings of fact. The Commission further finds that MGE has failed to meet its burden of proof to show that the rates proposed in File No. 9500015, Case No. GR-95-33, are reasonable and that tariff should be rejected and the company ordered to file tariffs in compliance with the Commission's findings of fact.

IT IS THEREFORE ORDERED:

1. That the following late-filed exhibits be received into the record:

Exhibit No. 26
Exhibit No. 27
Exhibit No. 28.

2. That this Report and Order is issued in resolution of all issues in Case No. GT-95-32.

3. That the tariff submitted by Missouri Gas Energy on July 7, 1994, and assigned File No. 9500014, be rejected. The tariff sheets rejected are:

P.S.C. Mo. No. 1

Original Sheet No. 37.1
Original Sheet No. 37.2
Original Sheet No. 37.3
Original Sheet No. 37.4
Original Sheet No. 37.5
Original Sheet No. 37.6
Original Sheet No. 37.7
Original Sheet No. 37.8
Original Sheet No. 37.9

Original Sheet No. 37.10
Original Sheet No. 37.11
Original Sheet No. 37.12
Original Sheet No. 37.13
Original Sheet No. 37.14
Original Sheet No. 37.15
Original Sheet No. 37.16.

4. That this Report and Order is issued in resolution of all issues in Case No. GR-95-33.

5. That the tariff submitted by Missouri Gas Energy on July 7, 1994, and assigned File No. 9500015, be rejected. The tariff sheets rejected are:

P.S.C. Mo. No. 1
First Revised Sheet No. 15, Cancelling Original Sheet No. 15
First Revised Sheet No. 16, Cancelling Original Sheet No. 16
First Revised Sheet No. 17, Cancelling Original Sheet No. 17
Fourth Revised Sheet No. 18, Cancelling Third Revised Sheet No. 18
First Revised Sheet No. 19, Cancelling Original Sheet No. 19
First Revised Sheet No. 23.5, Cancelling Original Sheet No. 23.5
First Revised Sheet No. 23.6, Cancelling Original Sheet No. 23.6.

6. That Missouri Gas Energy shall file tariffs for the recovery of direct billed transition costs in compliance with this order to become effective for service on and after June 6, 1995.

7. That this Report and Order shall become effective on June 6, 1995.

BY THE COMMISSION

David L Rauch

(S E A L)

David L. Rauch
Executive Secretary

Mueller, Chm., McClure, Kincheloe,
and Crumpton, CC., Concur and certify
compliance with the provisions of
Section 536.080, RSMo 1994.
Perkins, C., Absent.

Dated at Jefferson City, Missouri,
on this 26th day of May, 1995.